

# DEXUS Property Group (ASX:DXS)

ASX release

4 May 2016

## March 2016 quarter portfolio update

DEXUS Property Group (DEXUS) today announced an operational update across its property portfolio for the quarter ended 31 March 2016.

### HIGHLIGHTS

- Leased a significant volume of space across the DEXUS Office portfolio, reducing the lease expiry risks in FY17-19 and increasing occupancy to 95.1%
- Completed the development at 480 Queen Street, Brisbane<sup>1</sup>. The office space is now 100% leased, with a WALE of 9.4 years
- DEXUS and DEXUS Wholesale Property Fund (DWPF) settled on the acquisition of 90 and 100 Mount Street, North Sydney (100 Mount Street) in April 2016 and commenced development works on a 41,163 square metre premium office tower

### DEXUS OFFICE PORTFOLIO

Key metrics	31 March 2016	31 December 2015
Occupancy by income	95.1%	94.1%
Occupancy by area	95.3%	94.3%
WALE by income	4.7 years	4.4 years
Average incentive	17.4%	17.2%

Kevin George said: “Office market demand in the Sydney CBD continued its solid run with nearly 36,000 square metres of space taken up in the quarter and the rate of net absorption in prime office space is running at over four times the ten year average. Pleasingly, we have seen this flight to quality flow through our portfolio with increased enquiry and leasing activity at Premium properties such as Grosvenor Place. In addition, we have secured a number of new customers that are being displaced from development impacted assets, as well as those upgrading to better quality assets.”

Over the quarter to 31 March 2016, DEXUS leased 109,302 square metres<sup>2</sup> of office space across 79 transactions, which included 50 new deals. In addition to the leasing deals announced to the Australian Securities Exchange on 23 March 2016, notable activity for the quarter included:

- Securing five new leases and one renewal at Grosvenor Place, Sydney across 5,414 square metres
- Securing five new leases at 385 Bourke Street, Melbourne across 5,177 square metres
- Securing two new leases at 130 George Street, Parramatta across 4,427 square metres
- Securing four new leases at Waterfront Place, Brisbane across 3,562 square metres

Occupancy (by income) increased to 95.1% across the total office portfolio, while the weighted average lease expiry (WALE) increased by 0.3 years to 4.7 years. Leasing success increased occupancy (by area) at Grosvenor Place, Sydney from 83.6% at 31 December 2015 to 88.5% and at 130 George Street, Parramatta from 77.6% at 31 December 2015 to 100%, with the majority of income to flow through in the second half of FY17.

Leasing activity during the quarter has substantially reduced DEXUS's forward lease expiry risks as demonstrated in the following lease expiry profile chart.

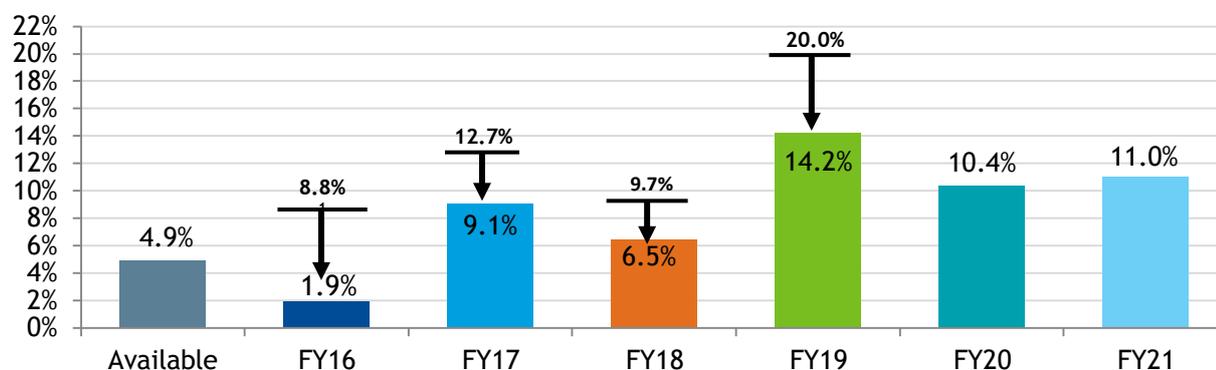
<sup>1</sup> 480 Queen Street, Brisbane is co-owned by DEXUS (50%) and DEXUS Wholesale Property Fund (50%).

<sup>2</sup> Including Heads of Agreement.

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DEXUS office portfolio lease expiry profile as at 31 March 2016 (compared to position at 30 June 2015):



## DEXUS INDUSTRIAL PORTFOLIO

Key metrics	31 March 2016	31 December 2015
Occupancy by income	90.8%	93.4%
Occupancy by area	90.8%	92.2%
WALE by income	4.3 years	4.6 years
Average incentive	9.9%	10.1%

Kevin George said: “Industrial tenant activity was concentrated at our sites in Western Sydney over the quarter and our industrial portfolio occupancy declined as a result of some large tenant movements and reduced leasing activity, particularly in our suburban office parks in Melbourne’s south east.”

Over the quarter to 31 March 2016, DEXUS leased 8,386 square metres<sup>3</sup> of industrial space across nine transactions at properties located at Axxess Corporate Park, 1 Foundation Place, Greystanes and 436-484 Victoria Road, Gladesville.

The moderate decline in industrial portfolio occupancy was a function of larger vacancies at 15-23 Whicker Road in Gillman, Axxess Corporate Park and Knoxfield Industrial Estate and is expected to improve towards the end of the calendar year as opportunities progress with existing anchor tenants seeking to relocate other logistics contracts to their adjoining tenancies.

## TRANSACTIONS

On 22 April 2016, DEXUS and DWPF settled on the acquisition of 100 Mount Street, North Sydney. Demolition is now underway and construction of a 41,163 square metre, 34-level premium office tower is expected to start in July 2016. The property is targeting 5 star Green Star and 5 star NABERS Energy ratings, and will offer office floor plates ranging from 1,200 to 1,300 square metres.

The site occupies one of the best locations in North Sydney, on the corner of Mount and Walker Streets with a third street frontage to Spring Street. It has prime retail exposure and benefits from its proximity to key transport infrastructure.

The anticipated total development cost including the initial acquisition price is \$467.5 million<sup>4</sup>. The development is expected to have a staged practical completion from June 2018 to December 2018. A long term lease across 6,229 square metres has also been secured with Laing O’Rourke Australia from final practical completion in December 2018, with lease up expected to continue throughout 2019.

<sup>3</sup> Including Heads of Agreement.

<sup>4</sup> Reflects 100% of development cost in which DEXUS and DWPF each have a 50% interest.

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## IOF MERGER WITH DEXUS

At the Investa Office Fund (IOF) Unitholder Meeting held on 15 April 2016, the resolution relating to the DEXUS Proposal to acquire 100% of IOF issued units was not passed by the requisite 75% of IOF Unitholders.

Darren Steinberg, DEXUS CEO said: "It is unfortunate that the DEXUS Proposal was not approved, despite having support from the majority of the IOF investor base. From a DEXUS perspective, we maintained our discipline with regards to price, always considering the underlying value of the real estate."

## DEVELOPMENT

During the quarter the development at 480 Queen Street, Brisbane was completed and the office space is 100% leased with a WALE of 9.4 years. The development is on track to achieve a forecast unlevered project IRR of 17%.

In industrial development, the Quarrywest site, owned in partnership with the DEXUS Industrial Partner continued to gain significant leasing traction with a further two new pre-leases secured post the end of the quarter. As a consequence, four leasing deals have been secured over two development projects since acquisition in June 2014.

## THIRD PARTY FUNDS MANAGEMENT

DEXUS continued to deliver outperformance for its third party funds, with DWPF outperforming its benchmark at 31 March 2016 over one, three and five years. The DEXUS Office Partnership exceeded the 31 December 2015 IPD Office Benchmark<sup>5</sup> by 3.2 percentage points over one year, and 3 percentage points since inception. At 31 March 2016 this performance was maintained with the DEXUS Office Partnership achieving a one year total return of 15.3% and a total return since inception of 15.7%.

Operationally, substantial leasing with the Queensland State Government at DWPF's AM60 in Brisbane has de-risked the property's tenancy profile and enhanced returns. DWPF also secured a strategic leasing deal with a key tenant over 11,407 square metres across two properties at Huntingwood, in Sydney.

DEXUS continued to progress the development pipeline managed on behalf of its third party clients. Structural works are well advanced at the major redevelopment of the retail plaza at Gateway, Circular Quay in Sydney, where terms were agreed with a further five tenants, increasing total pre-commitments to 84%.

## TRADING

With FY16 trading profits delivered, DEXUS is focused on progressing the six priority projects identified in its HY16 results presentation. These projects are expected to deliver approximately \$110 million<sup>6</sup> of trading profits over the next four years. The exchange of contracts in October 2015 for the divestment of 57-65 Templar Road, Erskine Park will contribute \$12 million to trading profits<sup>6</sup> in FY17.

## SUMMARY

Darren Steinberg said: "Despite the continued volatility in equity markets and overall economic conditions, it's been a solid quarter for our business and we are well placed to be able to take advantage of improving office markets in Sydney, Melbourne and Brisbane, as we head into FY17."

DEXUS reaffirms its guidance<sup>7</sup> for the 12 months ending 30 June 2016 of growth in FFO per security of 5.5-6.0%, with FFO from the underlying business (excluding trading profits) expected to grow by 3.0-3.5%. Distributions will be paid in line with free cash flow which is expected to deliver growth in distribution per security of 5.5-6.0% for the 12 months ending 30 June 2016.

5 IPD Office Benchmark total return to 31 December 2015 published by IPD on 25 February 2016 and calculated as a sum of capital growth and net income in a single period expressed as percentage of capital employed, with income reinvested.

6 Pre-tax.

7 Barring unforeseen circumstances guidance is supported by the following assumptions: circa 1% like-for-like income growth across the DEXUS office portfolio and a circa 7% decline in like-for-like income across the DEXUS industrial portfolio, weighted average cost of debt of 4.9%, trading profits of \$63m net of tax, Management Operations FFO of circa \$45m (including third party development management fees), and excluding any further transactions.

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## About DEXUS

DEXUS Property Group is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With \$21.5 billion of assets under management, the Group also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. The Group manages an office portfolio of 1.8 million square metres located predominantly across Sydney, Melbourne, Brisbane and Perth and is the largest owner of office buildings in the Sydney CBD, Australia's largest office market. DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code 'DXS' and is supported by more than 32,000 investors from 20 countries. With more than 30 years of expertise in property investment, development and asset management, the Group has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for its investors. [www.dexus.com](http://www.dexus.com)

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